

## The Sovereign Debt Crisis: An Opportunity for NATO Reform?

by

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## **ABSTRACT**

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## THE SOVEREIGN DEBT CRISIS: AN OPPORTUNITY FOR NATO REFORM?

In the past, I've worried openly about NATO turning into a two-tiered alliance: Between members who specialize in "soft" humanitarian, development, peacekeeping, and talking tasks, and those conducting the "hard" combat missions. Between those willing and able to pay the price and bear the burdens of alliance commitments, and those who enjoy the benefits of NATO membership – be they security guarantees or headquarters billets – but don't want to share the risks and the costs.<sup>1</sup>

—former U.S. Secretary of Defense Robert Gates

The North Atlantic Treaty Organization (NATO) is arguably the most successful military alliance in history.<sup>2</sup> In the past three years alone, NATO has surged additional troops into Afghanistan and conducted an operation in Libya resulting in the overthrow of the tyrannical Gaddafi government. Both of these operations though, despite varying levels of success, have laid bare some serious issues regarding the defense capabilities of the European NATO countries, exacerbated by years of chronic underfunding. Simultaneously, the European countries are faced with a sovereign debt crisis that seems to worsen each day and even threatens to break apart the European Union (EU). The challenge for NATO, and its member countries, is how to address the current lack of military capabilities in an austere fiscal environment.

In *The Price of Liberty*, Robert Hormats notes that "sound national finances have proved to be indispensable to the country's military strength."<sup>3</sup> While Hormats refers to the United States, every country's military strength is inextricably linked to its economic power, especially in the long-term. One of the key responsibilities of any sovereign nation though is providing for its security, and the cost of security changes with time and the environment. The price citizens are willing to pay also varies as their outlook on threats, real or perceived, evolves, and as their collective priorities (such as

unemployment insurance or government subsidized health care) change. Therefore, an inherent friction exists between the need for security and meeting the demands of the citizenry.

European defense budgets will continue to be under immense downward pressure given the current debt crisis, which has followed closely on the heels of the 2008 global financial crisis. Although defense budgets make up a very small percentage of gross domestic product (GDP) for most European NATO nations, public pressure and the perceived lack of any existential military danger will force politicians to cut defense as they tackle high sovereign debt loads. The impact of any defense cuts in Europe is magnified by decades of underfunding, eroding capabilities to the point that Europeans would not be able to handle a crisis in their own backyard against a relatively small adversary without significant assistance from the United States. I argue that while the economic crisis is grave, it presents an opportunity to enact reforms needed to posture NATO to meet the global security challenges of the 21st Century.

### NATO Background

Shortly after the end of World War Two, a series of events galvanized the United States' resolve to secure the countries of Western Europe against the rising Soviet threat. The result was the establishment of programs and institutions to militarily check the communist Soviet Union and provide the conditions for the devastated countries of Western Europe to rebuild their battered economies. It was in this post-war era that the United States and Canada joined ten European countries to found NATO on April 4, 1949, with the North Atlantic Treaty coming into force on August 24, 1949, after all signatory nations ratified the treaty.<sup>4</sup> Given the threat posed by communist forces in Eastern Europe, the primary focus of the Alliance was self-defense. Article V embodied

this collective self defense by clearly stating that an attack on one was considered an attack on all.<sup>5</sup> During the Cold War, the Alliance expanded three times and had 16 members when the Berlin Wall fell in 1989.<sup>6</sup>

The end of the Cold War signaled the end of the shared threat that had been the impetus for NATO's founding. For forty years, the Alliance stood together to confront the threat posed by the Soviet Empire. NATO suddenly found itself without an enemy to unite against, and the continued relevance of the Alliance in the absence of an existential threat came into question. With the tectonic shift in the security environment, NATO adopted a new Strategic Concept in 1991 that reaffirmed its commitment "to safeguard the freedom and security of all its members by political and military means in accordance with the principles of the United Nations Charter."<sup>7</sup> At the same time, NATO was reaching out to the newly democratized countries of Central and Eastern Europe and established the North Atlantic Cooperation Council in 1991 with a focus on dialogue, partnership, and cooperation.<sup>8</sup> While the breakup of the Soviet Union eliminated the major security threat to NATO, peace in Europe was far from assured. On the contrary, the collapse of authoritarian regimes in Europe released politically dangerous nationalist sentiments that had been suppressed for decades. In the early 1990s, the disintegration of Yugoslavia and strong nationalist feelings threw the Balkans into a civil war that threatened peace and security in the heart of a newly liberated Europe. Starting in April 1993 with Operation DENY FLIGHT, NATO became involved in operations against Serb-led aggression in Bosnia-Herzegovina.<sup>9</sup> While Operation DENY FLIGHT was very limited in scope and actions were only authorized under specific conditions in support of United Nations resolutions, in 1995 Operation DELIBERATE

FORCE, considered NATO's first true air campaign, was much broader and resulted in airstrikes against 338 targets in Serb-held Bosnia- Herzegovina.<sup>10</sup> NATO's efforts helped lead to the Dayton Peace Accords in November 1995 and the follow-on Operation JOINT ENDEAVOR, an effort to enforce the peace agreement.<sup>11</sup> These successful operations in the Balkans silenced doubts about the continued relevance of NATO after the end of the Cold War.

As the 1990s drew to a close, the Alliance marked two more important events. The first was Operation ALLIED FORCE, a combat operation from its inception, designed to protect Kosovar Albanians and force the withdrawal of Yugoslav forces from Kosovo. After an intense air campaign lasting 70 days, the Federal Republic of Yugoslavia agreed to withdraw its forces and NATO had secured the peace, eventually leading to the formation of the new nation of Kosovo.<sup>12</sup> Today the NATO-led mission in Kosovo, commanded by a German general, ensures a tenuous peace, especially in the Serb-dominated north where ethnic tensions run high.<sup>13</sup> The second major milestone for NATO was the accession of the first Eastern European countries, the Czech Republic, Hungary, and Poland, on March 12, 1999, just ten years after the Iron Curtain was lifted.<sup>14</sup> This was followed by the accession of seven more countries in 2004 and two more in 2009, bringing the current number of NATO members to 28 nations.<sup>15</sup> The ability of these countries to transition so quickly from decades of authoritarian rule to full integration into the Western, democratic community can be partially attributed to the efforts of NATO. Early on NATO held out the possibility of membership to these countries only if they met certain conditions, to include dedicating themselves to "the principles of democracy, individual liberty and the rule of law."<sup>16</sup>

As NATO was in the midst of its enlargement into Central and Eastern Europe, the terrorist attacks on September 11, 2001 set in motion events that continue to have a profound impact on the Alliance today. NATO evoked Article V for the first time, not for an attack on one of the European nations, but on the United States homeland. NATO was thrust into a conflict that would see it deploy troops into combat thousands of miles from its borders, and eventually assume the lead for the International Security and Assistance Force (ISAF) in Afghanistan in 2003.<sup>17</sup> While the operations in the Balkans in the 1990s were in NATO's backyard, the ISAF mission was the first out-of-area combat operation for the Alliance and every nation participated, though many with minimal forces and numerous national caveats on the employment of their forces.

In addition to these operations, NATO has played a key role in other missions over the past ten years. From its establishment in 2004 until its deactivation in 2011, NATO Training Mission – Iraq trained over 5,000 Iraqi military personnel and 10,000 Iraqi police officers and provided Iraq with over 115 million euros of equipment.<sup>18</sup> NATO also led the enforcement of United Nations Security Council Resolution (UNSCR) 1973, establishing a no-fly zone over Libya and protecting civilians from Gaddafi's regime from March to October 2011, resulting in the authoritarian government's collapse.<sup>19</sup> Finally, NATO has been conducting a counter-piracy mission off the Horn of Africa and in the Gulf of Aden since 2008, with plans to continue operations through 2012.<sup>20</sup> These three operations were all conducted while NATO was simultaneously engaged in its ISAF mission.

While NATO has shown its resilience and its ability to reinvent itself to remain relevant and meet security challenges as they have evolved, the willingness of countries

to adequately fund their collective defense has steadily eroded. Expressed as a percentage in Figure 1, United States defense spending, relative to the total defense spending by all NATO nations, has risen significantly from 1989 to 2010.

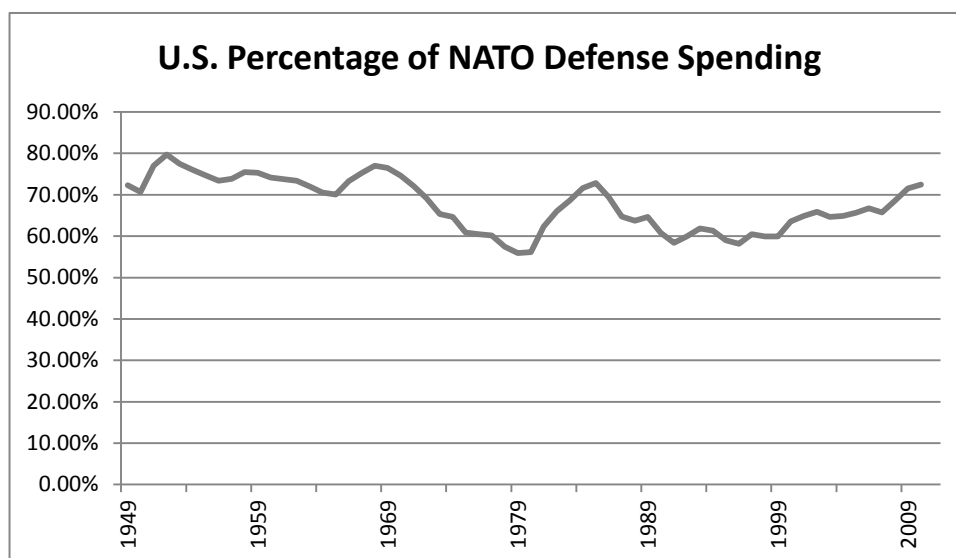


Figure 1: U.S. Percentage of NATO Defense Spending<sup>21</sup>

While the United States has underwritten a large portion of the global security bill since 1945, European nations benefit just as much from a stable global order as the United States, and it is important that they contribute their fair share to its maintenance. The world is much more globalized now than it was in 1989, and violence and instability around the globe have adverse effects on all NATO nations. Trade data for 2010 shows the EU had \$982.9 billion in trade with the BRIC countries (Brazil, Russia, India, and China) while U.S. - BRIC trade was only \$596.7 billion.<sup>22</sup> European countries clearly benefit from global trade and the security that enables it.

Despite the benefits derived from their membership, however, few NATO nations are willing to commit even the minimum goal of two percent of GDP to defense spending. In 2010, only five countries met the two percent figure: Albania (2.0), France (2.0), Greece (2.9), the United Kingdom (2.7), and the United States (5.4).<sup>23</sup> Given the

debt crisis in the Eurozone and defense spending trends, it is probable that by 2015 only the United States, and maybe the United Kingdom, will meet the 2.0 percent minimum.

When NATO was formed in 1949, the European allies were not in a position to fund their own defense and the United States understandably bore the majority of the costs associated with Western security, accounting for over 70% of defense spending by NATO nations through 1971. As the economies of Western Europe recovered and even began to thrive, the disparity in defense spending shrank and the United States percentage of total defense spending hovered around 60% through 1999, before the gap started to widen again in 2000. Governments on both sides of the Atlantic took advantage of the disappearance of the Soviet Union to give themselves a peace dividend, and defense spending in the U.S. and Europe dropped in real terms from 1990 through 2000. The decline was especially steep in Europe where defense spending dove more than ten percent from 186.2 to 164.6 billion dollars, despite the addition of three more European countries to NATO in 1999.<sup>24</sup>

In terms of GDP, the European countries in NATO spent an average of 3.0 percent of GDP on defense in 1990, 2.1 percent in 2000 and only an estimated 1.7 percent in 2010. The United States, on the other hand, spent 5.6 percent in 1990, 3.1 percent in 2000, and an estimated 5.4 percent in 2010.<sup>25</sup> Although a portion of the 2010 U.S. defense spending reflects operations in Iraq and Afghanistan, the United States realized even before 9/11 that it had cut defense spending too much in the 1990s. Europe collectively did not come to this same conclusion. On the contrary, Europe has even more severely underfunded its defense since the terrorist attacks of 2001, and the

gap in defense capabilities within NATO has continued to grow. In *NATO 2020: Assured Security; Dynamic Engagement*, a group of experts convened by NATO cited that the “primary limiting factor hindering military transformation has been the lack of European defence spending and investment.”<sup>26</sup>

One reason for this collective underfunding, according to Professor Christopher Fettweis of Tulane University, is that Europe does not see the world as a dangerous place or one containing any existential threat, and thus chooses not to fund defense to the same level as the United States.<sup>27</sup> While this hypothesis has some merit, Europe understands as well as the United States that it has vital interests both near its borders and further afield that could impact its security and national interests. As recent events in the Balkans, North Africa, and Georgia demonstrate, there are still simmering conflicts that could quickly escalate and greatly impact NATO territories and populations, or at the very least threaten vital interests such as a safe and secure supply of hydrocarbons. The Europeans have cut back on defense not because they see the world as without danger, but rather because they have relied on the United States to secure their stability, partly through the permanent stationing of troops in Europe and around the world.

#### Global Economic Crisis Background

European defense underfunding is not likely to improve in the near future. When the NATO 2020 report was released in May 2010, a new financial crisis was beginning in Europe, the full ramifications of which are still not known at this time. Unlike the financial crisis triggered by the collapse of Lehman Brothers in 2008, the current crisis revolves around sovereign debt and the ability of nations to service their debt load and rein in overspending. On April 23, 2010, Greek officials requested a bailout due to their



inability to service their large amount of debt.<sup>28</sup> After spending billions of dollars to save its banking system, Ireland became the second country forced to seek a bailout on November 22, 2010.<sup>29</sup> On May 3, 2011, Portugal became the third European country to receive a bailout when they accepted \$116 billion from the EU.<sup>30</sup> The crisis continues to spread as it threatens the financial stability of both Italy and Spain, two of the largest economies in Europe. In addition to many countries requiring, or approaching, a bailout, the ratings agency Standard and Poor's (S&P) put the debt of 15 European nations on negative outlook on December 5, 2011.<sup>31</sup> On January 13, 2012, S&P announced the downgrade of nine of those countries, including the loss of France's prized AAA rating.<sup>32</sup> It is against the backdrop of this deteriorating economic outlook that the NATO Secretary General, Anders Fogh Rasmussen, appealed to the European nations to not make shortsighted cuts to defense budgets and damage their security in the long-term.<sup>33</sup>

While Europe finds itself in the midst of its worst financial crisis since World War Two, the United States also finds itself facing a mounting debt crisis that must be addressed. The rising United States debt, exacerbated by the inability of the political parties to come to a compromise solution to address it, resulted in the United States losing its AAA rating from S&P on August 5, 2011.<sup>34</sup> The subsequent failure of the Congressional Super Committee to agree on budget cuts in November 2011, forced the government to enact sequestration measures, which resulted in an automatic \$600 billion reduction in defense spending (though not all would come from the Department of Defense) over 10 years beginning in 2013, on top of \$487 billion in defense cuts already agreed to as part of the Budget Control Act.<sup>35</sup> Secretary of Defense Leon Panetta stated

in October 2011 that defense cuts of this magnitude, approximately \$1 trillion, would be “devastating in terms of our national defense” and hollow out the force.<sup>36</sup>

### Future of NATO

Given these factors, there are three possibilities for NATO going forward. The first is the dissolution of NATO as those who currently shoulder the lion’s share of collective security, both in financial terms and human sacrifice, make the conscious decision to stop subsidizing the defense for other relatively rich countries. For example, the steep defense cuts in the United States, combined with a shift in American defense focus towards the Pacific and Asia, bode ill for the United States staying as actively engaged in Europe as it is today.<sup>37</sup> In April 2011, the DoD announced it was withdrawing one brigade combat team (BCT) from Europe in 2015, leaving only three BCTs in Europe.<sup>38</sup> Less than one year later, as a part of a major strategy review, the DoD announced it was drawing down to two BCTs in Europe and accelerating the withdrawals to 2013 and 2014.<sup>39</sup> Add to this the growing weariness of American taxpayers to continue what they view as the underwriting of European defense, and one could see the United States in the near future making the decision that NATO is no longer worth the cost in precious resources, both financial and human. In a poll conducted in June 2011, only 49 percent of Americans thought the United States needs to be in NATO.<sup>40</sup> As this attitude becomes more pervasive, the question becomes: how long will the American public support NATO and the United States underwriting European security?

The second possibility is a continuation of the status quo, which is the two-tiered Alliance referred to by Secretary Gates. Unfortunately, this is the most likely scenario, with the gap holding steady, or probably increasing, even with the expected United

States defense cuts. On August 24, 2011, the *Wall Street Journal* stated defense spending for European NATO members was expected to fall 2.9% between 2010 and 2015, after adjusting for inflation.<sup>41</sup> If European nations continue their chronic underfunding of defense and continue to rely on the United States, it is doubtful they will be able to execute another operation on the scale of Libya in the near future. In the longer term, it is likely that the United States, driven by political forces at home, will decide NATO is no longer worth the resources and effort devoted to it by America. Former Secretary of Defense Robert Gates warned in his farewell speech to NATO in June, 2011, that if Europe did not get its “defense institutions and security relationships back on track,” to include stopping further defense reductions, better allocation of resources, and following through on commitments, then the Alliance faced a “dim, if not dismal future.”<sup>42</sup> Secretary of State Hillary Clinton that same month warned that the deep defense cuts by Germany and the United Kingdom threatened long-term damage to the Alliance.<sup>43</sup> An article in *USA Today* in October 2011 plainly stated “America’s alliance with Europe emerged out of necessity in the Cold War era, but it has lost support and many, in particular in the United States, question its purpose.”<sup>44</sup> Even if NATO does survive long-term under this scenario, it would be unable to influence events on the global stage and at best it could hope to have the capability to protect its own territories and populations from aggression.

NATO’s demise is not preordained, however. The economic crisis can be the catalyst for implementing significant changes, posturing NATO for the global security challenges of today and tomorrow, strengthening the political and military Alliance that has shaped the world for almost 63 years. As a critical first step, member nations must

commit themselves to the 'Smart Defence' concept that NATO Secretary General Rasmussen espouses, and towards which he plans to announce concrete steps at the Chicago NATO Summit in May 2012.<sup>45</sup>

The assumption is that the NATO staff has already conducted a strategic review of which capabilities, and how many, it requires to execute its strategy, to include out-of-area operations. In April 2009, NATO published a detailed analysis of the likely operating environment through 2030.<sup>46</sup> This document, along with other efforts by NATO to continuously scan the strategic horizon, should have informed an analysis of the capabilities required to achieve NATO's strategy. Unfortunately, NATO's track record in getting its members to resource capabilities identified through this type of process has been mixed. NATO twice conducted in-depth reviews with hopes to resource identified capabilities requirements: the Defense Capabilities Initiative (DCI) in 1999, and the Prague Capabilities Conference (PCC) in 2002, with limited success. The PCC though is viewed as having been more successful than the DCI due in part to its emphasis on multinational solutions, pooling resources, recognizing niche capabilities, and being more specific in commitment requirements.<sup>47</sup> In order to be successful this time, NATO must again be as detailed as possible in requirements and, more importantly, countries must be willing to commit to concrete actions to develop capabilities and follow their commitments through to fruition.

Once the capabilities required are identified, NATO can work collaboratively on the most effective way to resource them. This is where the Secretary General's 'Smart Defence' proves most useful, but it requires the commitment of member countries. In his speech to the Munich Security Conference in February, 2011, Secretary General

Rasmussen defined 'Smart Defence' as "ensuring greater security, for less money, by working together with more flexibility."<sup>48</sup> 'Smart Defence' is essentially an attempt to align limited resources in an austere environment to ensure the Alliance has the right capabilities to accomplish its mission.

One way to achieve resource alignment and improve capabilities is for each member to focus on specific capabilities rather than all defense capabilities across the range of military operations. By eliminating investments in certain areas, individual countries can refocus those resources to areas where they can contribute more effectively to Alliance operations. Denmark is a great example of the efficiency of this approach. Five years ago, Denmark made a conscious decision to cease its submarine operations, along with some other maritime capabilities. The resultant savings were redirected to defense capabilities that supported expeditionary operations.<sup>49</sup> Denmark's contributions during the recent Libyan operation validated the decision, and the Supreme Allied Commander, Europe, Admiral James Stavridis, praised Denmark as one of the NATO members who "punched above their weight" during Operation UNIFIED PROTECTOR.<sup>50</sup> This focusing of limited resources on specific capabilities is something member countries must do, but there must also be a coordinated NATO-wide effort to identify which nations will provide which capabilities. NATO must also synchronize with the EU, which has its own member-contributed defense force and shares many of the same nations with NATO, as laid out at the Lisbon Summit in November, 2010.<sup>51</sup> While every nation would want to maintain certain core defense capabilities such as infantry, not every nation requires, nor has the expertise to field and operate, the latest generation air superiority aircraft, for example. For this approach to

be successful, all members must have complete faith in their collective defense as spelled out in Article V. Many countries would be giving up military capabilities which historically have been critical in their defense. Without confidence that other members would provide for this capability in their time of need, nations would be foolish to give up any capability deemed vital to their defense.

A strong commitment, however, by all nations to Article V allows member states to modernize their capabilities and adapt to new security challenges, such as a ballistic missile threat from a rogue country like Iran. In addition to providing for collective defense, members must be willing to make their capabilities available for NATO operations, without national caveats placed on them. This refers specifically to NATO's out-of-area operations such as those in Afghanistan and Libya. While every NATO country is represented in Afghanistan, many have little more than token presence with so many restrictive caveats that their forces are combat ineffective with "virtually no prospect that their soldiers would fire a shot in anger."<sup>52</sup> The United States fields the majority of forces, 90,000 out of a total of 130,313 from 49 nations, and bears the brunt of the cost for the operation.<sup>53</sup>

While some argue that the United States has more at stake than Europe in Afghanistan, the same can not be said about Libya. Libya is in Europe's backyard, supplied 1.3 million barrels per day of oil to Europe prior to the Arab Spring, and threatened to plunge the region into greater instability as refugees fled the violence.<sup>54</sup> Despite this legitimate threat in their own neighborhood and the backing of a UNSCR, outside of headquarters functions only 14 NATO countries participated in the ironically named Operation UNIFIED PROTECTOR after the North Atlantic Council unanimously

approved operations.<sup>55</sup> Once NATO took the lead from the United States for operations, it was only a short time before the Alliance realized it lacked significant capabilities, which only the United States could provide. These capabilities included intelligence, surveillance, and reconnaissance (ISR) assets, aerial refueling, and precision-guided munitions, among others.<sup>56</sup>

In addition to each nation specializing in defense capabilities, NATO can improve its overall military capability by pooling resources. Pooling especially makes sense in capability areas that are resource intensive such as aerial refueling, strategic airlift, submarine warfare, and aircraft carrier operations, or areas where close multinational cooperation is essential to success, such as ballistic missile defense and cyberspace operations. A recent success story, the Heavy Airlift Wing (HAW) at Papa Air Base, Hungary, could serve as a template for efforts in other areas. The HAW consists of three C-17 aircraft and is a consortium of 12 countries, ten NATO and two non-NATO nations: Sweden and Finland.<sup>57</sup> With the expected cost estimated at five billion dollars over 30 years of operation, this strategic airlift capability would be out of reach for most nations on their own.<sup>58</sup> In addition, most nations do not have a continuous requirement for the type of strategic airlift capability provided by the C-17, making it irrational for many nations to devote precious resources to have a full time, exclusively dedicated capability.

By pooling their resources, nations have access to a C-17 aircraft at a fraction of the cost incurred to operate one independently. Each of the 12 participating nations has committed to a certain number of hours of utilization each year which pays for the all costs associated with acquiring, maintaining, and operating the aircraft. The C-17 is

especially useful for transporting personnel and equipment to austere airfields, such as those found in Afghanistan and many parts of Africa, where less capable aircraft cannot access with the same payloads. An additional benefit gained by this type of arrangement is the sharing of tactics, techniques, and procedures between nations. Since every nation has personnel involved in the operation, countries can share their best practices with each other, increasing NATO's overall interoperability and the efficiency and efficacy of individual nations for their own militaries. These best practices are not limited to the operations of the aircraft, but also maintenance, logistics, personnel, finance, etc.

While the HAW falls outside of NATO's common operating budget, consideration should also be given to the future pooling of resources within NATO's common operating budget for certain capabilities. Currently, NATO operates a fleet of 17 AWACs aircraft at Geilenkirchen Air Base, Belgium with 18 nations participating.<sup>59</sup> These aircraft have proven themselves numerous times, including a deployment to monitor the skies over North America following the 9/11 attacks. NATO should embrace this model for both remotely piloted aircraft (RPA) for ISR and aerial refueling aircraft. Both of these capabilities are lacking in NATO, and are expensive to acquire and operate for individual nations.

In addition to pooling resources on a large scale, NATO countries should continue to pool resources on a smaller scale, either bilaterally or multinationally. An example of this is Belgium and France sharing joint training infrastructure for their jet pilots.<sup>60</sup> Denmark is preparing to sign an agreement with Germany allowing it to patrol and defend Danish airspace, thereby reducing the requirement for Danish aircraft to



defend its own nation's sovereignty. This will enable Denmark to meet its security needs with a smaller fighter force and still retain the ability to send some of its fighters on international missions, while Germany defends its airspace and territory.<sup>61</sup> These types of bilateral agreements are examples of where nations can benefit from working together to increase their mutual defense capability and at the same time free up assets for out-of-area operations.

Another area where progress can be made is acquisition reform. Europe has an overabundance of defense contractors, resulting in several problems. The *Economist* points out that "Europe produces 20 different kinds of armored vehicles, six types of attack submarines and three of fighter jets."<sup>62</sup> With so many contractors vying for so few customers, economies of scale are difficult to achieve and production rates for many expensive items are too low to realize cost efficiencies. An additional issue with such myriad pieces of military equipment is reduced interoperability, making it difficult for planners and operators to effectively mix assets within the Alliance to achieve desired tactical, operational, and strategic effects. Further, this excess in variety of military equipment results in logistical inefficiencies. Each of these systems requires a separate supply chain, making it difficult to efficiently and effectively supply a fielded force. Collectively, this results in many nations overpaying for an inferior capability that is not interoperable, and is difficult to maintain, especially in the field, all to try to artificially prop up their own inefficient military industrial complex. It is important for NATO members to move forward on acquisition reform for their own benefit and the effectiveness of the Alliance.

While pooling resources and acquisition reform would allow NATO to do more with less, the downward trajectory of defense spending must still level off. Unfortunately, without a forcing mechanism, some NATO countries see defense spending as an easy budget item to cut during these difficult times, as they can rely on Article V to protect their territory and population. In the short term, this can greatly affect NATO's ability to influence events around the world and respond to crises. In the longer term, it continues to propagate the impression, especially in the United States, of European countries becoming defense freeloaders. If this impression gains further traction, it could result in the American public pressuring United States politicians to leave the NATO Alliance. NATO nations must therefore recognize the long-term risks, militarily and politically, associated with their chronic underfunding of defense, and address it in an unequivocal manner. At the same time, American politicians and senior national security leaders must ensure the American public understands the national benefits of continued membership in the Alliance, even when not all members are paying their fair share.

Given the current debt crisis, and the very real threat it presents to many countries today, I recommend an adjustment to the minimum defense spending, as measured as a percentage of GDP, for each NATO member. NATO has set a minimum goal of two percent of GDP spent on defense, though it has never imposed any consequences for not meeting this goal: this fundamental requirement has no teeth. In fact, looking at the historical data, one would think the goal was a ceiling on defense spending rather than a floor.<sup>63</sup> With many countries facing major financial pressures, any new enforcement mechanism would need to be phased in gradually. To enable early compliance and work towards sustainable funding, NATO should use a graduated

formula and start by temporarily dropping its floor to 1.5 percent of national GDP until 2017. In 2017 it would increase by .1 percent to 1.6 percent and then increase every other year thereafter by .1 percent until it reaches two percent again in 2025. Even with the initial drop to 1.5 percent, it should be noted 13 European NATO countries would not have met even this reduced benchmark in 2010.<sup>64</sup>

While probably not politically tenable at this time, there should be a dialog on how to enforce minimum defense spending on NATO members. This enforcement mechanism should come into force by 2015, thereby providing enough time for countries not currently meeting even the reduced floor of 1.5 percent to reallocate their budget priorities without shocking their system. This delay also provides countries three years to address their sovereign debt issues, even though defense makes up a small percentage of their budgets. One idea to enforce the new floor would be to impose a NATO-wide tariff on the exports of any country not meeting the minimum. The tariffs would be calculated to equal the shortfall that the country is spending on defense. For instance, if a country spends only 1.0 percent on defense in 2016 instead of 1.5 percent, tariffs equivalent to the 0.5 percent difference would be imposed in 2017 by the other members of the Alliance. The tariffs would be directed into NATO's common operating budget to help provide for the collective defense by filling that country's funding gap. While the idea is radical, it is not far off from what 25 members of the EU agreed to on January 31, 2012 to address the growing debt crisis.<sup>65</sup> In their proposal, signatory countries who use the Euro and who fail to meet the specific fiscal criteria, to include a structural budget deficit of no more than 0.5% of GDP, would be obligated to adopt budget measures recommended by the European Commission.<sup>66</sup> The EU

countries, especially those in the Eurozone who share a common currency, agreed to this because if they did not, the fiscally stronger countries, mainly the Northern Europeans, would refuse to assist them, and their economies would collapse. The stronger EU countries agreed to this mechanism because they feared the systemic risk posed by the failure of the weaker economies on Europe as a whole. Returning to the military part of the DIME (Diplomatic, Information, Military, and Economic) spectrum, why would NATO members agree to a floor on defense spending? The simple answer is that every country in NATO, including the United States, has more to benefit from its continued existence than its relegation to the history books.

### Conclusion

European nations currently find themselves staring into an economic abyss, with a former Bank of England official predicting a multi-year depression with global GDP dropping ten percent and unemployment climbing over 20% in the West if the worst were to happen and the Eurozone were to break up.<sup>67</sup> While it is unlikely that the Eurozone will disintegrate, the current crisis will force most of the European countries to enact austerity plans. These austerity plans, a necessity for the long-term viability of their economies, will almost definitely impact defense spending. At the same time, the United States is facing its own fiscal and political pressures, making it nearly impossible for it to make up the shortfall in European defense spending.

NATO is too important to let fail. For the past 62 years it has been the foundation of the United States' and many European countries' national security. As the past twenty years have shown, NATO can adapt and effectively respond to crises. Today, adaptation and change are again required. To continue to be a successful Alliance, NATO members must take bold steps at the Chicago Summit in May 2012 to meet the

challenges of 'Smart Defence' and commit themselves to the minimum GDP spending goals as set forth by the Alliance. Continued defense underfunding by European nations, coupled with the increasing perception by the United States of a free-riding Europe, could put NATO's future at risk. While it is hoped that radical consequences such as the defense tariff laid out in this paper are never imposed, discussions must continue on how to strengthen the Alliance and maintain public support on both sides of the Atlantic. Political leaders must think creatively and do what is required to strengthen NATO's capabilities and ensure its relevancy, despite the current economic challenges, and effectively communicate the strategic importance of a strong Alliance to their citizens.

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